

Technical University in Zvolen
Faculty of Wood Sciences and Technology
Department of Enterprise Management

***POTENTIAL OF OFFSETS
FROM FOREIGN DIRECT INVESTMENT***

Martina MERKOVÁ
Josef DRÁBEK

4th WoodEMA conference
Development trends in economic and management in wood processing and furniture manufacturing
Kozina, Slovenia
June 8th - 10th 2011

Introduction

The development of each sector or company requires appropriate investment. *Foreign direct investment (FDI)* in many cases supports the development of the invested area.

Wood-processing industry (WPI)* has to face recession in the current period. Due to the fall in demand for timber and timber products, many small businesses were lost. In general, this *branch has begun to grow mainly due to the foreign investors.

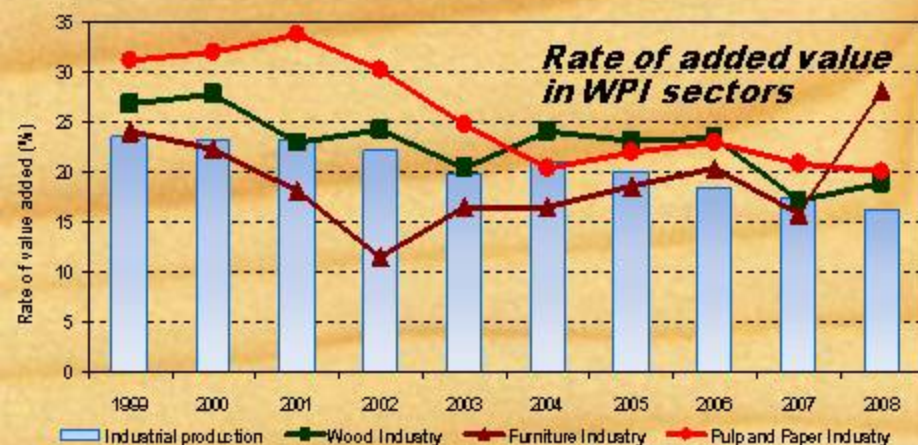
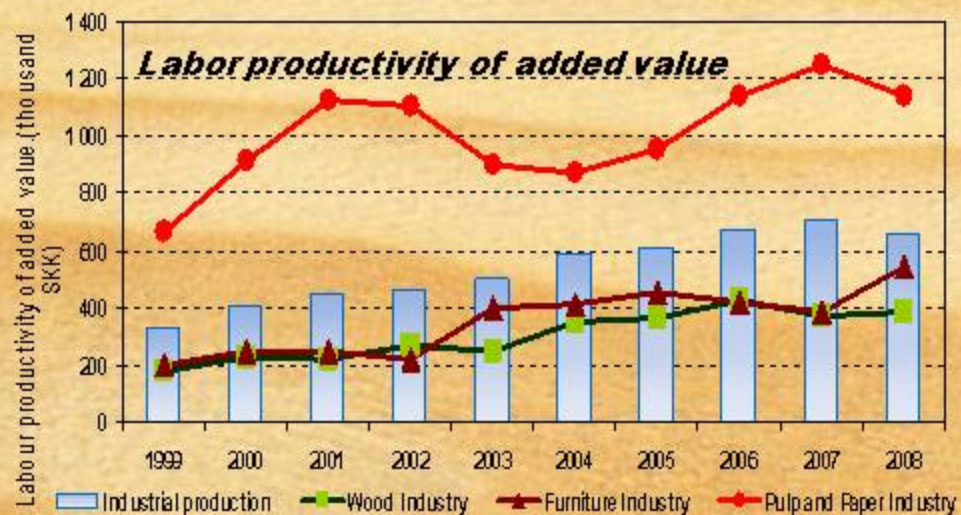
Small and middle wood companies:

- *outdated technology***
- *falling employment especially in domestic enterprises***



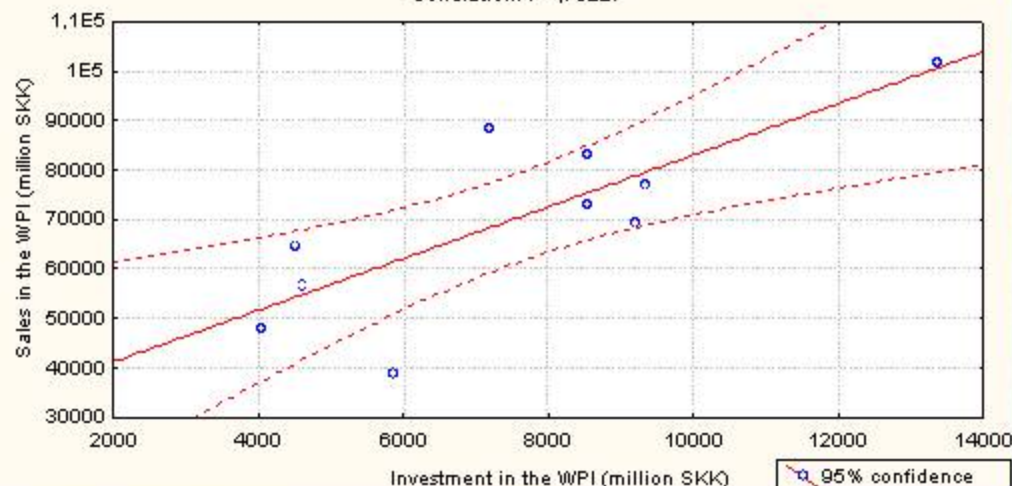
higher potential for foreign investors and related effects

Effects of investment and FDI in the wood-processing branch

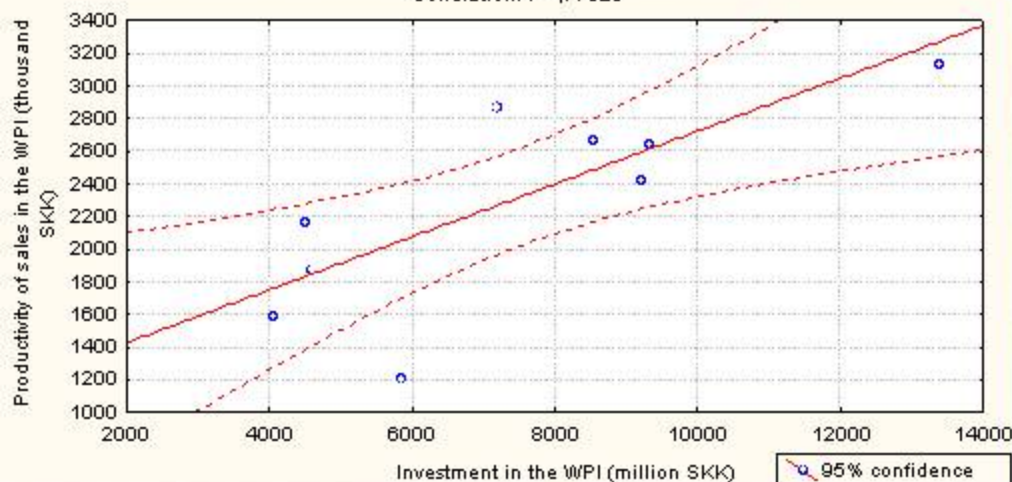


Correlation and regression analysis of investment in the wood-processing branch

Sales in the WPI (million SKK) = $30688 + 5,2249 \cdot \text{Investment in the WPI (million SKK)}$
Correlation: $r = ,79227$



Productivity of sales in the WPI (thousand SKK) = $1100,6 + ,16209 \cdot \text{Investment in the WPI (million SKK)}$
Correlation: $r = ,77023$



Correlation:
Investment | Sales

correlation coefficient $r = 0.79$
regression coefficient $b = 5.22$

Growth of sales 5,22 mld. SKK **Growth of productivity 0,162 mil. SKK**



Growth of investment 1 mld. SKK

Correlation:
Investment | Labour productivity

correlation coefficient $r = 0.77$
regression coefficient $b = 0.162$

Potential of the foreign direct investment in the SR and WPI

In Slovakia are good conditions for investment.

- *Slovakia was the only one EU country where only 1% of foreign investors planned to leave the country.*
 - *Other EU members move at the level of 5%.*
- The change in FDI stocks in SR in 2008 with increase of +1,5%, compared with CR +1,74%, -8,2% Poland, Hungary -36,54%.*

FDI opportunities in Slovakia – companies with sophisticated production:

- ☐ well established cluster in the **automotive industry**,
(leading global manufacturer of cars per capita), latest technology and skills
- ☐ **information technologies (IT) market**
- ☐ **wood-processing branch**
- ☐ **drinking water and mineral springs**
- ☐ **businesses in the food and beverage industry**,
- ☐ **wellness tourism sector** (benefits of 1200 mineral springs in the country)

Competitive advantages in Slovakia:

- *openness of Slovak economy to foreign investors, which delivers new technologies,*
- *legislation supporting FDI inflow,*
- *low duty barriers,*
- *developed markets of goods and services,*
- *a high correlation between the amount of earnings and labor productivity,*
- *low risk of terrorism,*
- *a healthy banking sector*

Comparative advantage – low labour cost

Labour costs in year 2008 in selected countries (EUR)



V4 countries:

Slovakia: 1005 EUR

Czech Republic 1311 EUR

Hungary 1145 EUR

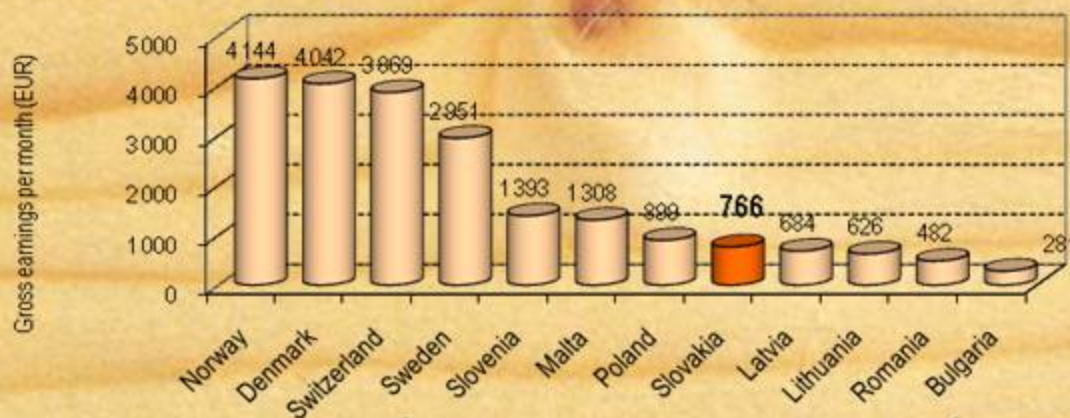
Poland 1129 EUR

**Countries with FDI
in future:**

Romania (628 EUR)

Bulgaria (354 EUR).

Gross earnings in year 2008 in selected countries (EUR)



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Wood-processing industry - labour cost

Earnings (year 2008):
Wood Industry: 590 €
Furniture Industry: 645 €
Paper Industry: 965 €
Sectors of WPI: 690 €

Earnings (year 2008):
the average in Slovakia 723 €
the industrial production 714 €
the highest: technologies (IS/IT) 1 371 €
the lowest: accommodation and catering 598 €

WPI:

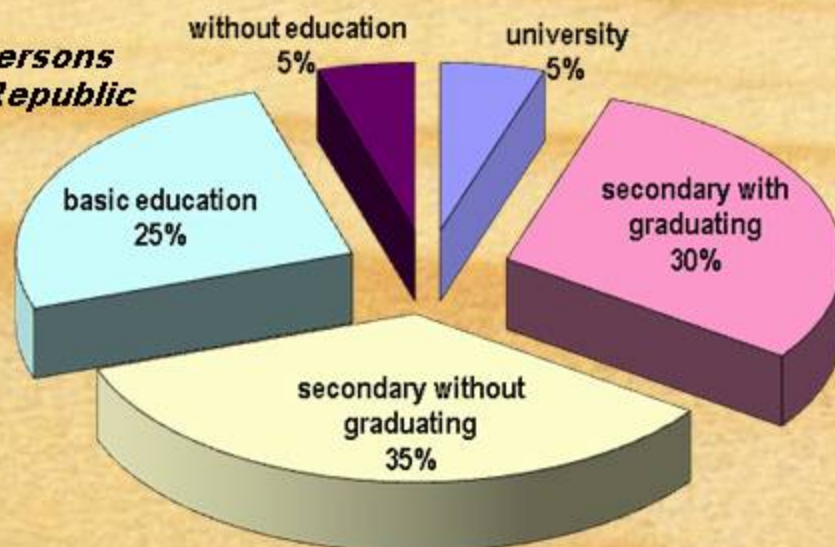
Consistently lower average earning than in the industrial production of the SR, only sector of PPI experiencing the value.

Advantage of cheap labor: potential of FDI in the first two mentioned sectors.



Wood-processing industry – relatively educated labour force

**Unemployed persons
in the Slovak Republic
by education:**



**!Graduates are educated,
but not adequately prepared
for entry into the
working sphere of life!**

**Status of job seekers:
381 209 persons**

**Unemployment rate:
12,46%**

Unemployed persons in the WPI sectors

Region of Slovakia	WPI:	Wood industry	Furniture industry	Pulp and paper industry
Bratislava region	160	123	27	10
Trnava region	478	193	239	46
Trenčín region	591	265	304	22
Nitra region	808	399	276	133
Žilina region	1 155	679	257	219
Banská Bystrica region	1 730	1 202	431	97
Prešov region	1 586	1 248	182	156
Košice region	693	434	103	156
Slovakia	7 201	4 543	1 819	839

Wood-processing industry – wood stocks and wood harvesting

Wood stocks in Slovak forests has been increasing continuously.

- continuing increase until culmination in the years 2015-2020
- then expected change start reducing caused by changes in the age composition

Wood stock in the Slovak Republic (millions m3)

Wood Stock		1970	1980	1990	2000	2007	2008
Total		313	324	348	410	446	452
Increasing since the year 1970		*	+10,7	+35,2	+96,7	+132,6	+138,8
m ³ /ha	- coniferous	225	237	235	249	209	211
	- deciduous	140	156	163	190	237	241
	Total	176	191	193	215	232	234
Wood stock in the forests usable for production		Total				413	419
		- coniferous				192	194
		- deciduous				221	225

Wood stock forecast in SR (millions m3)

Wood Stock Forecast	2010	2015	2020	2025	Vision 2050
Coniferous	213	213	209	204	182
Deciduous	238	240	241	242	233
Total	451	453	450	446	415
Total per hectare	234	234	133	230	214

Wood harvesting is also growing.

- planned volume of total harvesting will gradually increase to expected peak in the years 2040-2050
- in next 40-50 years harvest possibilities will be better then in present time (can be 30% higher)

Wood harvesting in SR (thousands m3)

Wood harvesting		1990	2000	2005	2006	2007	2008
Coniferous	Total	2777	3245	6927	5150	5344	6354
	- unplanned	1838	2012	6153	3831	4272	5559
	%of unplanned	66,2	62,0	88,8	74,4	79,9	87,5
Deciduous	Total	2499	2973	3263	3207	3023	3113
	- unplanned	766	1010	380	435	429	556
	%of unplanned	30,7	34,0	11,7	13,6	14,2	17,9
Total	Total	5276	6218	10190	8357	8367	9467
	- unplanned	2604	3021	6533	4266	4701	6115
	%of unplanned	49,3	48,6	64,1	51,0	56,2	64,6

Wood harvesting forecast in SR (thousands m3)

Wood harvesting forecast	2010	2015	2020	2025	Vision 2050
Coniferous	4 282	4 434	4 538	4 512	4 950
Deciduous	3 523	3 781	3 993	4 222	4 935
Total	7 805	8 215	8 531	8 734	9 885

Conclusion

Slovakia currently exports abroad 25% of raw wood.

In case of foreign capital, which will be invested in new technologies for processing of domestic raw materials, potential effects from foreign direct investment especially reflect in a higher value added in the WPI, in the growth of the WPI share in the GDP of Slovakia.

Wood industry in Slovakia has not dominant status of automotive production, does not be put as a power sector, there is missing the advertising campaign which have chemical products. However, woodworking and furniture industry in Slovakia exists and it is more than necessary.

Base for the development of WPI:

- Forests and sophisticatedly used wood***
- Focus on domestic production***
- Increased consumption of wood in the Slovak Republic***
(to support the growth of domestic demands, construction, downstream sectors)

Thank you for your attention!

***MSc. Martina Merková, PhD. – Assoc. Prof. Josef Drábek, PhD.
Technical University in Zvolen
Faculty of Wood Sciences and Technology
Department of Enterprise Management
T. G. Masaryka 24, 960 53 Zvolen, Slovak Republic
merkova@vsld.tuzvo.sk, drabek@vsld.tuzvo.sk***